BEFORE THE

FEDERAL MARITIME COMMISSION

NOTICE OF INQUIRY

SOLICITATION OF VIEWS ON THE IMPACT OF SLOW STEAMING

COMMENTS OF

THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

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The National Industrial Transportation League ("NITL" or "League") submits these comments in response to the Notice of Inquiry ("NOI") of the Federal Maritime Commission ("FMC" or "Commission") regarding the impact of slow steaming on U.S. ocean liner commerce.[1] The League believes that the NOI addresses matters of significant importance, as the practice of slow steaming has rapidly pervaded ocean shipping during the past couple of years. The League also commends the Commission's decision to examine slow steaming, especially since the impact of the practice on company supply chains, shipping costs, and the environment is not well understood.

I. IDENTITY AND INTEREST OF THE LEAGUE

The League is one of the oldest and largest national associations representing companies engaged in the transportation of goods in both domestic and international commerce. The League was founded in 1907, and has approximately 600 company members. These company members range from some of the largest users of the nation's transportation system, to smaller companies engaged in the shipment and receipt of goods. A substantial majority of the League's

[1] Solicitation of Views on the Impact of Slow Steaming, 76 Fed. Reg. 6,616 (Feb. 7, 2011).

members are classic "shippers," that is, beneficial owners of goods transported by ocean liners in the U.S. foreign commerce.

II. INTRODUCTION

Ocean liner carriers began the practice of slow steaming around 2009. Under this practice, carriers reduce the speed at which their ships operate in order to achieve fuel cost savings and other potential environmental benefits. The lower vessel speeds reduce a ship's hourly fuel consumption because less power is needed from the ship's engines to maintain the slower cruise speed. If service frequency is maintained, more ships will be enroute at any given time, tying up the capacity of the shipping fleet.

The effects of slow steaming on capacity and demand were key factors that motivated carriers to adopt slow steaming. In 2009, the U.S. and many of its trading partners were in the midst of the worst economic recession since the Great Depression. As U.S. companies faced unprecedented production declines, ocean shipping between the U.S. and foreign ports decreased considerably, causing many carriers to sustain considerable financial losses. To help counter the losses that they incurred, carriers needed to reduce costs. Slow steaming became a vehicle used to reduce fuel consumption, which is a major cost center for carriers.

Another important factor that induced the use of slow steaming is the environmental benefit of reduced fuel consumption. Carriers have been under pressure to reduce their carbon footprint because their ships are a significant source of greenhouse gas emissions. The League supports the carriers' efforts to reduce their carbon footprint and the associated pollution of the environment.

Despite these benefits, there are other impacts from slow steaming that raise concerns within the shipping community. Slower vessel speeds result in increased transit times and delays

in the delivery of goods.[2] For time sensitive shipments, slow steaming has an adverse impact on company supply chains, production schedules, and customer deliveries. Also, reduced vessel speeds lower the amount of available effective capacity, which can be expected to cause rate levels to rise as the demand for vessel space increases.

While measuring the effect of slow steaming on transit times and fuel consumption is relatively easy, quantifying the effects on the supply chain and the environment is complex. Reduced capacity and increased transit times affect company supply chains and shipping costs in many ways. Further, the true nature of the environmental benefit is difficult to measure without more information about the true fuel savings associated with slow steaming and whether other factors, such as engine temperatures and combustion characteristics negate the environmental benefits.

III. COMMENTS

The League solicited feedback on the impact of slow steaming from its Ocean Transportation Committee. These comments are based on the input provided from certain members of that committee.

A. Shippers Have Not Realized Slow Steaming Benefits in the Form of Reduced Shipping Rates

In its NOI, the Commission requested comments generally on the advantages and disadvantages of slow steaming and, specifically, as to whether companies have benefited from fuel cost savings via lower freight rates. For shippers, the potential advantage of slow steaming is the pass through by carriers of reduced fuel costs in the form of reduced shipping rates. Yet, it appears from the feedback from League members and public analyses of the US shipping

[2] On a 2,000 nm trip, reducing a 23 knot cruise speed by 5 knots will increase the transit time by one day, from 87 hours to 111 hours. Some carriers, like Maersk, have cut cruise speeds in half. In this example, cutting the 23 knot cruise speed in half will result in a 160 hour transit, an increase of 3 days. Elisabeth Rosenthal, Slow Trip Across Sea Aids Profits and Environment, N.Y. Times, Feb. 16, 2010, at A1.

markets that, to date, carriers have been reluctant to pass the fuel savings from slow steaming through to shippers.[3] In fact, many League members have experienced increased shipping costs since the implementation of slow steaming. Accordingly, reduced fuel costs are merely a potential advantage to shippers that has not been widely realized.

Some carriers may claim that the fuel savings are reflected in the rates that they charge. Because the fuel savings and freight rate data needed to determine the extent to which carriers may be passing their savings from slow steaming through to shippers is not readily available, it is difficult for the League to provide data or more extensive comments on this issue. The Commission, however, may be in a better position to collect data from the carriers and analyze such information to determine the extent of any fuel savings and potential pass through. Even if other factors affecting rates make it too difficult to ascertain the true nature of any pass through, the Commission should be able to ascertain the true effect of slow steaming on fuel consumption based on operational and fuel cost information presumably retained by the carriers. Although carriers are not legally obligated to pass through fuel savings derived from slow steaming to shippers, it may be relevant to any cost/benefit analysis conducted on the impact of slow steaming on U.S. importers and exporters.

B. Slow Steaming Has Negatively Affected Company Supply Chains

Supply chains have suffered negative impacts as a result of slow steaming. Transit times have risen, effective vessel capacity has dropped, shortages in containers and equipment have been exacerbated, and meeting customer expectations is more difficult.

Slower vessel speeds have resulted in increased transit times for millions of shipments. Increased transit times cause delayed deliveries of parts and materials to manufacturing facilities

[3] Eric Johnson, Slow Steaming a Benefit to Shippers?, Am. Shipper., Nov. 16, 2010, http://www.americanshipper.com/NewWeb/SNews/american-shipper-magazine/ocean/175201--slow-steaming-a-benefit-to-shippers.html.

and of finished goods to customers. In order to accommodate longer voyage times, shippers are required to make adjustments to their supply chains to address, in particular, inventory fluctuations. One of the key aspects of the supply chain that transit time affects is inventory. Initially, slow steaming accelerated the depletion of inventory making it harder for shipper's to fill their store shelves and manufacturers' production lines-in a timely manner. Over time, however, shippers have been forced to adjust to lengthened voyage times by increasing the amount of inventory they carry, at higher costs. Aside from direct monetary costs, other economic and societal costs are associated with higher inventory levels. Goods that sit in inventory are simply not producing real economic output or providing any societal benefit.

Increased transit times especially affect shippers that operate just-in-time supply chains. Just-in-time supply chains are distribution networks under which goods are delivered when they are ready to be used, reducing the amount of inventory needed. These networks are developed with precision, relying on accurate demand forecasts. Forecasts, however, become less accurate as the length of the forecast period increases. Accordingly, the longer transit times associated with slow steaming reduce the accuracy of the forecasts that shippers use to manage just-in-time supply chains. To address this, they must increase their inventory levels to avoid supply interruptions at stores and manufacturing facilities. As noted above, this is both expensive and nonproductive.

Increased transit time also ties up available vessel capacity and equipment at sea for longer periods. For instance, as a simplistic hypothetical, take two sets of ships having a ship capacity of 10 containers. Both operate on a 15-day frequency, but one set has 30-day transit time and the other a 45- day transit time. At any given time, operating the set with the 45-day

transit time will tie up 150% of the capacity that is utilized by the set operating on a 30-day schedule. Still, the same amount of cargo will reach the destination in either given period.

Slow steaming has thus exacerbated recent problems involving a shortage of containers and equipment,[4] causing some shippers to scramble to acquire the containers and equipment they need to ship their goods. Others have reported that the containers and equipment that they have obtained required payment of a premium.[5] Slow steaming may afford carriers the flexibility to account for unexpected delays by increasing speed. While this can benefit the supply chain by increasing carrier reliability, shippers have reported that carriers have not been adjusting their speeds to meet their schedules. Accordingly, slow steaming has not increased carrier reliability.

C. Decreased Service Frequency Compounds the Effects of Slow Steaming

A drop in service frequency compounds the effects of slow steaming.[6] Alone, slow steaming increases the amount of capacity that is not available because it is in-transit. When a reduction in service frequency accompanies slow steaming, the amount of in-transit cargo and capacity utilization is elevated and overall shipping capacity available on a lane over time is reduced. This can elevate prices because it reduces lane capacity in relation to demand. Because the demand for ocean liner services increased in 2010 and League members do not have access to the carriers' operational data, deciphering the connection between freight rates and slow steaming is not possible.

As noted above, shippers have seen a marked increase in inventory costs where the carriers have cut service frequency and implemented slow steaming. Because of the drop in

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[4] According to some, 5-7 percent more containers are needed to carry the same amount of cargo if vessels travelled at normal speeds. Chris Dupin, Boxed-Out, Am. Shipper, Aug. 2010, at 31, 33.

[5] See Bruce Barnard, Carriers Face Renewed Container Shortage, JOC Sailings, Mar. 8, 2011, http://www.jocsailings.com/tabid/74/ArticleId/10698/Carriers-Face-Renewed-Container-Shortage.aspx.

[6] Most carriers appear to have maintained service frequency. See Bill Mongelluzzo, Growth in the Slow Lane, J. Comm., Feb. 7, 2011, at 21.

service frequency, shippers must increase the amount that they ship. This requires accumulating and storing more goods prior to shipment. Likewise, those receiving goods must keep more goods on hand since they will be supplied less frequently. For shippers and receivers to support these necessary increases in inventory, they must incur additional storage, labor, and other costs.

In many cases, shippers or their customers cannot accept decreased service frequency. They must turn to higher-cost transportation alternatives. While some shippers are able to find ocean carriers that offer normal steaming, others have turned to air transportation, at a much higher transportation cost.

For U.S. exporters, reductions in service frequency are problematic. Exporters are finding it harder to compete against foreign companies that are not affected by slow steaming because they can reach the customer using land rather than ocean transportation. The lengthening of voyage times provides international companies with a competitive advantage because they can deliver product more quickly.

IV. CONCLUSION

For the foregoing reasons, slow steaming has not benefited shippers. Instead, carriers appear to have retained the economic benefit of slow steaming for themselves. Admittedly, measuring the true impact of slow steaming is difficult. The League believes that access to more information is necessary to characterize the effects of slow steaming. Our observation is that shippers and consumers have transferred economic well being to carriers; the analytical question would seem to be whether that transfer of wealth has been "offset" by the reduced negative effects of vessel engine emissions into the atmosphere.

Accordingly, the League urges the Commission to closely monitor the practice of slow steaming and to consider collecting data from ocean carriers on a periodic basis that will assist in

analyzing the effects of slow steaming on U.S. commerce, including whether there is a reasonable balance between the costs and benefits of slow steaming.

Respectfully submitted,

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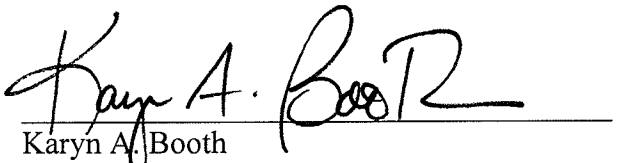

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